No Tax on Overtime Fact Sheet

Who Qualifies?

- **Only W-2 employe**es are covered.
  - Anyone working as an **independent contractor is not eligible.**
- The benefit phases out for those making more than:
  - **$150,000 (Single)**
  - **$300,000 (Married Filing Jointly)**
- Employees who work for **rail carriers do not qualify** for the deduction.
- The benefit will **end with the 2028 tax year**.

How does the deduction work?

- Starting with the **2025 tax year**, Employers must provide workers with a W-2 that lists <u>**qualified**</u> **overtime compensation.**
- Employees may **deduct that qualified overtime from their federal taxable income**.
- Eligible employees can deduct up to:
  - **$12,500 annually (Single)**
  - **$25,000 annually (Married Filing Jointly)**
  - Applied to **overtime earned on or after January 1, 2025**.
- The deduction goes down **$100 for every $1,000 over the threshold.**
  - Example: If you made $152,000, you can only deduct $12,300 max.

What is Qualified Overtime Compensation?

- Employees may **only deduct overtime compensation required under the Fair Labor Standards Act ("FLSA"),**
  - Requires that employers pay overtime at **time-and-a-half for all hours worked over 40 in a workweek**.
- Employees may **NOT** deduct:
  - Overtime earned under a **state law** requirement;
  - Overtime earned under a **collective bargaining agreement,** except for FLSA overtime after 40 hours/week.
  - **Shift differentials, weekend premiums, or other differentials** not required by the FLSA.

Can overtime be deducted for state and local taxes?

- **No.** The deductions do **not apply** to Social Security and Medicare Taxes, **state taxes,** and **local taxes**.

For more info, consult your tax professional or visit irs.gov.